

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AGR-05 L-03 COME-00 TRSE-00

CIAE-00 INR-07 NSAE-00 /035 W  
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R 071612Z JAN 76

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 5548

INFO AMCONSUL OPORTO

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E.O. 11652: N/A

TAGS: ETRD, PO

SUBJ: COTTON CONTRACT PROBLEMS

REF: 75 STATE 292962

1. COMATT AND STAFF DISCUSSED COTTON CONTRACT PROBLEM IN SEPARATE MEETINGS WITH REPRESENTATIVE OF MILL (COMPANHIA DA FABRICA DE FIACAO DE TOMAR) AND WITH DR. PEREIRA MAGRO, INDUSTRY MINISTRY OFFICIAL RESPONSIBLE FOR OPERATIONS OF THE MILL. MILL WAS INTERVENED BY GOP IN AUGUST 1975 AND PREVIOUS MANAGEMENT SUSPENDED. NEW MANAGEMENT APPOINTED BY, AND RESPONSIBLE TO, MINISTRY OF INDUSTRY.

2. ACCORDING TO MR. TEODORO DA NEVES, MEMBER OF MILL'S NEWLY-APPOINTED MANAGEMENT, ALL MAJOR DECISIONS ARE SUBJECT TO MINISTRY APPROVAL. DECISION ON FULFILLING CONTRACT HAS BEEN REQUESTED FROM MINISTRY, BUT MINISTRY HAS NOT RESPONDED.

3. MAGRO REPORTS THAT FULFILLMENT OF CONTRACT PRESENTS SERIOUS POLITICAL PROBLEMS FOR GOP. GOP RECOGNIZES THAT CONTRACT IS COMPLETELY VALID AND DOES NOT CHALLENGE IT ON LEGAL GROUNDS. HOWEVER, RELATIVELY HIGH PRICE FOR COTTON, IN COMPARISON TO PRESENT MARKET PRICE, AND INADEQUACY OF QUALITY FOR SOMEWHAT CHANGED OUTPUT OF PLANT WILL SUBJECT PURCHASE TO INTENSE CRITICISM FROM MILL'S WORKERS COMMITTEE, FROM INTER-SINDICAL LABOR

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FEDERATION, AND FROM POLITICAL PARTIES AND SOME SEGMENTS OF GOP.

CRITICISM WILL BE DIRECTED AT BOTH GOP AND USG. MAGRO ESTIMATES THAT DIFFERENCE BETWEEN CONTRACT PRICE AND PRESENT MARKET PRICE IS ABOUT \$400,000 WHILE DIFFERENCE IN QUALITY MAY COST FIRM ANOTHER \$200,000. HE ADDS THAT MILL IS ALREADY BANKRUPT AND IT IS POLITICALLY DIFFICULT TO JUSTIFY A PURCHASE WHICH MAY INCREASE LOSSES BY \$600,000. FINALLY, MAGRO MAINTAINS THAT OTHER FOREIGN SUPPLIERS HAVE RENEGOTIATED PRICE AND QUALITY CONDITIONS TO GIVE MORE FAVORABLE TERMS TO MILL.

4. MAGRO SUGGESTS THAT CIEC AND MILL MAKE ONE MORE ATTEMPT TO RENEGOTIATE CONTRACT, PREFERABLY THROUGH VISIT TO PORTUGAL. HE MAINTAINS THAT POSSIBLE INCREASED SALES IN THE FUTURE IS INCENTIVE TO CIEC TO DISCUSS ADJUSTMENT OF CONTRACTS. MAGRO PROMISES TO PROVIDE ALL POSSIBLE ASSISTANCE OF MINISTRY AND OF GOP IN PROMOTING SUCCESSFUL NEGOTIATIONS.

5. FYI ONLY: DURING DISCUSSION WITH MAGRO, COMATT MADE CLEAR IMPORTANCE OF FULFILLING CONTRACTS FOR PORTUGUESE COMMERCIAL REPUTATION. IT APPEARS HE RECOGNIZES THIS FACT BUT HE FACES SERIOUS POLITICAL OBSTACLES. EMBASSY RECOMMENDS CIEC CONSIDER ONE MORE ROUND OF TALKS. PLEASE ADVISE EMBASSY OF CIEC PLANS AND FURTHER DEVELOPMENTS.  
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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COTTON, TRADE COMPLAINTS  
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**TAGS:** ETRD, PO, US, COTTON IMPORT & EXPORT COMPANY  
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